



Dave Yost • Auditor of State

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Franklin Local School District
Muskingum County
360 Cedar Street
P.O. Box 428
Duncan Falls, Ohio 43734

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Franklin Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Franklin Local School District, Muskingum County, Ohio, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2013, the School District adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the School District's basic financial statements taken as a whole.

The Federal Awards Receipts and Expenditures Schedule presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2013, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

August 21, 2013

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Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

The discussion and analysis of the Franklin Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2013 are as follows:

- Net position of governmental activities decreased \$691,920.
- General revenues accounted for \$21,014,641 in revenue or 80 percent of all revenues. Program specific revenues in the form of charges for services, operating and capital grants, contributions, and interest accounted for \$5,103,961 or 20 percent of total revenues of \$26,118,602.
- The School District had \$26,810,522 in expenses related to governmental activities; only \$5,103,961 of these expenses were offset by program specific charges for services, operating and capital grants, contributions, and interest. General revenues of \$21,014,641 were not adequate to provide for these programs.
- The School District has two major funds; the General Fund and the Bond Retirement Fund. The General Fund had \$21,127,196 in revenues and \$20,232,450 in expenditures. The General Fund's balance decreased \$680,254. The Bond Retirement Fund had \$750,523 in revenues and \$786,286 in expenditures. The Bond Retirement Fund's balance increased \$200,104.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Franklin Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column.

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Reporting the School District as a Whole

Statement of Net Position and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2013?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net position and changes in the net position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Position and the Statement of Activities, all of the School District's programs and services are reported as governmental activities including instruction, support services, operation of non-instructional services, bond service operations, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major fund begins on page 10. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and Bond Retirement Fund.

Governmental Funds Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match. The School District's only fund of this type is the Self-Insurance Internal Service Fund. However, the activity of this fund is combined with the Governmental Activities on the entity wide financial statements.

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
 Unaudited

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. They are not reflected on the government-wide financial statements because the resources from those funds are not available to support the School District's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2013 compared to 2012.

Table 1
Net Position

	Governmental Activities		
	2013	2012	Change
Assets			
Current and Other Assets	\$23,258,620	\$21,311,110	\$1,947,510
Capital Assets	35,036,424	36,431,920	(1,395,496)
Total Assets	58,295,044	57,743,030	552,014
Deferred Outflows of Resources			
Deferred Charge on Refunding	336,008	0	336,008
Liabilities			
Long-term Liabilities	7,264,548	7,283,786	(19,238)
Other Liabilities	3,761,766	3,306,342	455,424
Total Liabilities	11,026,314	10,590,128	436,186
Deferred Inflows of Resources			
Property Taxes not Levied to Finance Current Year Operations	4,708,234	3,564,478	1,143,756
Net Position			
Net Investment in Capital Assets	29,967,615	31,220,378	(1,252,763)
Restricted	5,286,288	4,035,342	1,250,946
Unrestricted	7,642,601	8,332,704	(690,103)
Total Net Position	\$42,896,504	\$43,588,424	(\$691,920)

Total assets of governmental activities increased \$552,014. The majority of this increase was due to the increase in cash and cash equivalents in the amount of \$1,489,777 and an increase in property taxes receivable in the amount of \$673,474. The increase in cash and cash equivalents was primarily due to the School District monitoring the cash flow very closely. The increase in property taxes receivable was due to an increase in the amounts certified to be collected by the individual county auditors. These increases were offset by a decrease in intergovernmental receivables in the amount of \$119,961 and a decrease in accounts receivable in the amount of \$26,664. Capital assets decreased \$1,395,496 mainly due to current year depreciation exceeding additions.

Franklin Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2013

Unaudited

Total liabilities increased \$436,186. Most of this increase is attributed to an increase in matured sick leave benefits payable in the amount of \$198,700, an increase in contracts payable in the amount of \$129,540, and an increase in accounts payable in the amount of \$69,599. The increase in matured sick leave benefits payable resulted from an increase in the number of individuals who retired at the end of fiscal year 2013 compared to fiscal year 2012. The increase in contracts payable was due to the installation of the new football field turf project that began at the end of fiscal year 2013. Long-term liabilities decreased \$19,238. During fiscal year 2013, the School District partially refunded the School Building Construction Bonds and also issued new General Obligation Notes for the football field turf project. This new debt was offset by the debt payments that were made during fiscal year 2013.

Deferred inflows of resources property taxes increased \$1,143,756 due to the increase in assessed values that were certified by the county auditors for increases in property taxes.

Table 2 shows the changes in net position for the fiscal year ended June 30, 2013, and comparisons to fiscal year 2012.

Table 2
Changes in Net Position

	Governmental Activities		Change
	2013	2012	
Revenues			
Program Revenues:			
Charges for Services	\$1,909,842	\$1,965,349	(\$55,507)
Operating Grants, Contributions and Interest	3,064,619	3,461,406	(396,787)
Capital Grants and Contributions	129,500	0	129,500
Total Program Revenues	<u>5,103,961</u>	<u>5,426,755</u>	<u>(322,794)</u>
General Revenues:			
Property Taxes	7,771,722	10,490,211	(2,718,489)
Grants and Entitlements	13,011,896	13,188,687	(176,791)
Investment Earnings	183,078	187,508	(4,430)
Gain on Sale of Capital Assets	0	25,410	(25,410)
Revenue in Lieu of Taxes	1,613	1,613	0
Miscellaneous	46,332	728	45,604
Total General Revenues	<u>21,014,641</u>	<u>23,894,157</u>	<u>(2,879,516)</u>
Total Revenues	<u>\$26,118,602</u>	<u>\$29,320,912</u>	<u>(\$3,202,310)</u>

(continued)

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
 Unaudited

Table 2
 Changes in Net Position
 (continued)

	Governmental Activities		Change
	2013	2012	
Program Expenses			
Instruction:			
Regular	\$13,788,367	\$11,803,575	\$1,984,792
Special	2,565,648	2,461,294	104,354
Vocational	133,572	120,474	13,098
Intervention	225,604	186,844	38,760
Support Services:			
Pupils	781,359	805,893	(24,534)
Instructional Staff	749,543	1,411,392	(661,849)
Board of Education	109,326	89,444	19,882
Administration	1,543,589	1,517,647	25,942
Fiscal	462,427	507,785	(45,358)
Operation and Maintenance of Plant	2,299,062	2,128,487	170,575
Pupil Transportation	1,730,019	1,580,295	149,724
Central	186,508	212,012	(25,504)
Operation of Non-Instructional Services:			
Food Service Operations	1,344,185	1,342,328	1,857
Other Non-Instructional Services	2,762	6,646	(3,884)
Extracurricular Activities	640,811	583,457	57,354
Interest and Fiscal Charges	247,740	297,244	(49,504)
Total Expenses	<u>26,810,522</u>	<u>25,054,817</u>	<u>1,755,705</u>
Increase (Decrease) in Net Position	(691,920)	4,266,095	(4,958,015)
Net Position Beginning of Year	<u>43,588,424</u>	<u>39,322,329</u>	<u>4,266,095</u>
Net Position End of Year	<u><u>\$42,896,504</u></u>	<u><u>\$43,588,424</u></u>	<u><u>(\$691,920)</u></u>

Net position decreased \$691,920. Revenues reflect a decrease of \$3,202,310 due mainly to a decrease in property taxes in the amount of \$2,718,489. The decrease in property taxes is due mainly to the change in collection dates.

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decreases as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 30% of revenues for governmental activities for the Franklin Local School District in fiscal year 2013.

Instruction comprises approximately 62 percent of governmental program expenses.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
 Unaudited

Table 3
 Governmental Activities

	<u>Total Cost of Services</u> 2013	<u>Net Cost of Services</u> 2013	<u>Total Cost of Services</u> 2012	<u>Net Cost of Services</u> 2012
Program Expenses				
Instruction:				
Regular	\$13,788,367	\$11,759,558	\$11,803,575	\$9,510,109
Special	2,565,648	1,519,572	2,461,294	1,356,927
Vocational	133,572	78,964	120,474	65,866
Intervention	225,604	216,442	186,844	186,844
Support Services:				
Pupils	781,359	781,359	805,893	730,893
Instructional Staff	749,543	453,337	1,411,392	1,093,304
Board of Education	109,326	109,326	89,444	89,444
Administration	1,543,589	1,512,555	1,517,647	1,486,976
Fiscal	462,427	455,193	507,785	498,490
Operation and Maintenance of Plant	2,299,062	2,215,874	2,128,487	2,044,833
Pupil Transportation	1,730,019	1,691,499	1,580,295	1,529,083
Central	186,508	179,308	212,012	204,812
Operation of Non-Instructional Services:				
Food Service Operations	1,344,185	200,698	1,342,328	168,533
Other	2,762	2,762	6,646	6,646
Extracurricular Activities	640,811	282,374	583,457	358,058
Interest and Fiscal Charges	247,740	247,740	297,244	297,244
Total	<u><u>\$26,810,522</u></u>	<u><u>\$21,706,561</u></u>	<u><u>\$25,054,817</u></u>	<u><u>\$19,628,062</u></u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2013, approximately 81 percent of instruction activities were supported through taxes and other general revenues.

The School District's Major Funds

The School District's major funds (the General Fund and the Bond Retirement Fund) are accounted for using the modified accrual basis of accounting.

General Fund

The General Fund had total revenues of \$21,127,196, expenditures of \$20,232,450, and net other financing sources (uses) in the amount of (\$1,575,000) which resulted in a decrease in fund balance of \$680,254. Total revenues decreased by \$2,549,656 as a result of a decrease in the amount available for real estate taxes due to change in timing of the real estate collections. In addition, total expenditures increased in the amount of \$1,011,593.

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
 Unaudited

Bond Retirement Fund

The fund balance of the Bond Retirement Fund at June 30, 2013, is \$1,233,761, an increase of \$200,104 from the prior year primarily due to the increase in the amounts available for real estate taxes exceeding the bond retirement payments.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2013, the School District amended its General Fund budget, but only slightly between line item expenditures; however, the overall final budget was reduced by an increase in transfers out due to transfers to the Permanent Improvement Fund. The School District uses a building budget technique which is designed to control building budgets but provide flexibility for building management. For the General Fund, original and final budgeted revenue was \$20,183,689. Actual revenues were \$21,538,261, which was higher than the budgeted revenues. This was primarily due to receiving more tax revenue than anticipated due to the natural gas distribution pipeline and compressor station being constructed within the School District. The General Fund had final appropriations of \$20,607,342. This was \$718,658 above actual expenditures of \$19,888,684. This is due to the School District budgeting for contingencies and monitoring expenditures to keep them under budget. The School District's ending General Fund balance was \$6,313,096.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2013, the School District had \$35,036,424 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2013 balances compared to 2012.

Table 4
 Capital Assets, Net of Depreciation

	Governmental Activities	
	2013	2012
Land	\$1,122,451	\$1,122,451
Construction in Progress	467,672	0
Land Improvements	2,143,945	2,254,471
Buildings and Improvements	29,759,873	31,370,372
Furniture and Equipment	937,439	963,898
Vehicles	605,044	720,728
Totals	\$35,036,424	\$36,431,920

See Note 9 to the basic financial statements for more information on capital assets.

Debt

At June 30, 2013, the School District had \$5,498,728 in bonds, notes, and capital leases outstanding. Due to the financial stability of the School District, being able to obtain municipal bond insurance, and participating

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
 Unaudited

in the Ohio School District Credit Enhancement Program, the School District received a Moody's bond rating of Aa2.

Table 5
 Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2013	2012
2012 School Building Construction Refunding Bonds	\$2,331,680	\$0
2004 School Building Construction Refunding Bonds	2,040,033	1,908,546
2004 School Building General Obligation Construction Bonds	354,246	2,561,203
1996 School Construction General Obligation Bonds	335,000	630,000
2001 Energy Conservation Notes	160,000	235,000
2013 General Obligation Notes	129,580	0
Capital Leases	148,189	189,686
Totals	\$5,498,728	\$5,524,435

See Note 15 to the basic financial statements for more information on debt.

Economic Factors

Over the past 20 years, the School District has remained in a stable financial position and has increased its cash balance carry-over. Approximately 95 percent of the School District is in Muskingum County and the remaining 5 percent is in Perry County. Muskingum County completed a property valuation reappraisal in calendar year 2012. The 2012 reappraisal resulted in no significant changes in total housing/agricultural values; therefore, we are projecting no or minimal increases in future real property valuations. Also, House Bill 66 eliminated our personal property valuations; however, public utility personal property values have increased. A natural gas distribution pipeline and compressor station was constructed within the School District. This increased the assessed values in tax years 2010, 2011, and 2012, which were collected in calendar years 2011, 2012, and 2013. Public utility personal property values increased by approximately \$90,000,000. The School District has also been experiencing decreases in enrollment and is projecting enrollment decreases in the future. Due to these possible future reductions in State funding, the School District consolidated classes and went from five to four school buildings for instruction, eliminated three teaching positions, and did not fill one non-teaching position for fiscal year 2012. For fiscal years 2012 and 2013, the State of Ohio implemented a bridge school funding formula which was based on fiscal year 2011 funding. The funding formula for fiscal year 2014 and 2015 resulted in no additional funding for the School District. Due to both the Federal and State economy, there are concerns about future State education funding. The Board of Education and administration of the School District must maintain prudent financial management in order to preserve financial stability.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Christopher Miller, Treasurer/CFO at Franklin Local School District, P.O. Box 428, Duncan Falls, Ohio 43734 or E-Mail at chris.miller@omeresanet.net.

Franklin Local School District, Ohio

Statement of Net Position

June 30, 2013

	Primary Government Governmental Activities	Component Unit Franklin Local Community School
Assets		
Equity in Pooled Cash and Cash Equivalents	\$13,238,469	\$402,059
Cash in Segregated Accounts	151	0
Materials and Supplies Inventory	25,866	0
Intergovernmental Receivable	872,200	44,379
Prepaid Items	86,675	61
Accounts Receivable	16,098	0
Due from Component Unit	83,164	0
Revenue in Lieu of Taxes Receivable	1,613	0
Property Taxes Receivable	8,934,384	0
Nondepreciable Capital Assets	1,590,123	0
Depreciable Capital Assets, Net	33,446,301	89,240
<i>Total Assets</i>	<u>58,295,044</u>	<u>535,739</u>
Deferred Outflows of Resources		
Deferred Charge on Refunding	336,008	0
Liabilities		
Accounts Payable	179,197	175
Accrued Wages and Benefits Payable	2,290,882	0
Contracts Payable	129,540	0
Matured Sick Leave Benefits Payable	238,575	0
Due to Primary Government	0	83,164
Vacation Benefits Payable	59,458	0
Intergovernmental Payable	495,700	256
Accrued Interest Payable	13,914	0
Claims Payable	354,500	0
Long-Term Liabilities:		
Due Within One Year	689,374	0
Due In More Than One Year	6,575,174	0
<i>Total Liabilities</i>	<u>11,026,314</u>	<u>83,595</u>
Deferred Inflows of Resources		
Property Taxes not Levied to Finance Current Year Operations	4,708,234	0
Net Position		
Net Investment in Capital Assets	29,967,615	89,240
Restricted for:		
Capital Projects	2,462,452	0
Debt Service	1,331,682	0
Unclaimed Monies	481	0
Other Purposes	1,491,673	0
Unrestricted	7,642,601	362,904
<i>Total Net Position</i>	<u>\$42,896,504</u>	<u>\$452,144</u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2013

	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Component Unit
Governmental Activities						
Instruction:						
Regular	\$13,788,367	\$1,272,403	\$756,406	\$0	(\$11,759,558)	\$0
Special	2,565,648	0	1,046,076	0	(1,519,572)	0
Vocational	133,572	0	54,608	0	(78,964)	0
Intervention	225,604	0	9,162	0	(216,442)	0
Support Services:						
Pupils	781,359	0	0	0	(781,359)	0
Instructional Staff	749,543	38,386	257,820	0	(453,337)	0
Board of Education	109,326	0	0	0	(109,326)	0
Administration	1,543,589	0	31,034	0	(1,512,555)	0
Fiscal	462,427	0	7,234	0	(455,193)	0
Operation and Maintenance of Plant	2,299,062	0	83,188	0	(2,215,874)	0
Pupil Transportation	1,730,019	0	38,520	0	(1,691,499)	0
Central	186,508	0	7,200	0	(179,308)	0
Operation of Non-Instructional Services:						
Food Service Operations	1,344,185	386,810	756,677	0	(200,698)	0
Other Non-Instructional Services	2,762	0	0	0	(2,762)	0
Extracurricular Activities	640,811	212,243	16,694	129,500	(282,374)	0
Interest and Fiscal Charges	247,740	0	0	0	(247,740)	0
<i>Total Primary Government</i>	<u>\$26,810,522</u>	<u>\$1,909,842</u>	<u>\$3,064,619</u>	<u>\$129,500</u>	<u>(21,706,561)</u>	<u>0</u>
Component Unit						
Franklin Local Community School	<u>\$650,254</u>	<u>\$0</u>	<u>\$726,726</u>	<u>\$0</u>	<u>0</u>	<u>76,472</u>
General Revenues						
Property Taxes Levied for:						
General Purposes					6,640,201	0
Debt Service					691,065	0
Capital Outlay					326,150	0
Classroom Facilities Maintenance					114,306	0
Operating Grants and Entitlements not Restricted to Specific Programs					13,011,896	0
Revenue in Lieu of Taxes					1,613	
Investment Earnings					183,078	12,165
Miscellaneous					46,332	8,544
<i>Total General Revenues</i>					<u>21,014,641</u>	<u>20,709</u>
<i>Change in Net Position</i>					<u>(691,920)</u>	<u>97,181</u>
<i>Net Position Beginning of Year</i>					<u>43,588,424</u>	<u>354,963</u>
<i>Net Position End of Year</i>					<u>\$42,896,504</u>	<u>\$452,144</u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

Balance Sheet

Governmental Funds

June 30, 2013

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$6,856,017	\$1,018,455	\$3,478,391	\$11,352,863
Cash in Segregated Accounts	0	0	151	151
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	481	0	0	481
Receivables:				
Property Taxes	7,693,169	742,363	498,852	8,934,384
Accounts	12,436	0	3,662	16,098
Intergovernmental	47,453	0	824,747	872,200
Interfund	109,072	0	231	109,303
Revenue in Lieu of Taxes	1,393	111	109	1,613
Due from Component Unit	83,164	0	0	83,164
Prepaid Items	86,670	0	5	86,675
Materials and Supplies Inventory	10,229	0	15,637	25,866
<i>Total Assets</i>	<u>\$14,900,084</u>	<u>\$1,760,929</u>	<u>\$4,821,785</u>	<u>\$21,482,798</u>
Liabilities				
Accounts Payable	\$87,587	\$0	\$90,821	\$178,408
Interfund Payable	231	0	109,072	109,303
Accrued Wages and Benefits Payable	2,052,860	0	238,022	2,290,882
Contracts Payable	0	0	129,540	129,540
Intergovernmental Payable	441,446	0	54,254	495,700
Matured Sick Leave Benefits Payable	238,575	0	0	238,575
<i>Total Liabilities</i>	<u>2,820,699</u>	<u>0</u>	<u>621,709</u>	<u>3,442,408</u>
Deferred Inflows of Resources				
Property Taxes not Levied to Finance				
Current Year Operations	4,047,413	403,410	257,411	4,708,234
Unavailable Revenue	1,152,712	123,758	373,609	1,650,079
<i>Total Deferred Inflows of Resources</i>	<u>5,200,125</u>	<u>527,168</u>	<u>631,020</u>	<u>6,358,313</u>
Fund Balances				
Nonspendable	97,380	0	15,642	113,022
Restricted	0	1,233,761	1,564,210	2,797,971
Committed	1,172,953	0	1,064,235	2,237,188
Assigned	112,610	0	928,261	1,040,871
Unassigned	5,496,317	0	(3,292)	5,493,025
<i>Total Fund Balances</i>	<u>6,879,260</u>	<u>1,233,761</u>	<u>3,569,056</u>	<u>11,682,077</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$14,900,084</u>	<u>\$1,760,929</u>	<u>\$4,821,785</u>	<u>\$21,482,798</u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
Reconciliation of Total Governmental Fund Balances To
Net Position of Governmental Activities
June 30, 2013

Total Governmental Fund Balances	\$11,682,077
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Amounts reported for governmental activities in the statement of net position are different because

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	35,036,424
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property Taxes Receivable	1,330,415
Grants	306,423
Revenue in Lieu of Taxes	1,613
Student Fees Receivable	11,628
	1,650,079

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal fund are included in governmental activities in the statement of net position.	1,529,836
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Vacation Benefits Payable is recognized for earned vacation benefits that are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(59,458)
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Unamortized issuance costs represent deferred charges which do not provide current financial resources and therefore, are not reported in the funds.	336,008
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Accrued Interest Payable	(13,914)
School Improvement Bonds Payable	(5,060,959)
Energy Conservation Notes Payable	(289,580)
Capital Leases Payable	(148,189)
Sick Leave Benefits Payable	(1,765,820)
	(7,278,462)

Net Position of Governmental Activities	\$42,896,504
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See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$6,424,521	\$687,056	\$431,997	\$7,543,574
Intergovernmental	13,050,727	63,356	2,937,370	16,051,453
Investment Earnings	186,111	0	2,423	188,534
Charges for Services	0	0	386,810	386,810
Tuition and Fees	1,277,123	0	39,169	1,316,292
Gifts and Donations	130,403	0	29,977	160,380
Extracurricular Activities	14,053	0	198,190	212,243
Revenue in Lieu of Taxes	1,393	111	109	1,613
Miscellaneous	42,865	0	3,467	46,332
<i>Total Revenues</i>	<u>21,127,196</u>	<u>750,523</u>	<u>4,029,512</u>	<u>25,907,231</u>
Expenditures				
Current:				
Instruction:				
Regular	11,126,852	0	852,827	11,979,679
Special	1,354,255	0	1,020,270	2,374,525
Vocational	116,169	0	0	116,169
Intervention	209,580	0	13,602	223,182
Support Services:				
Pupils	721,444	0	0	721,444
Instructional Staff	110,505	0	380,976	491,481
Board of Education	109,326	0	0	109,326
Administration	1,420,061	0	31,985	1,452,046
Fiscal	427,282	15,126	8,344	450,752
Operation and Maintenance of Plant	1,848,828	0	29,968	1,878,796
Pupil Transportation	1,588,982	0	0	1,588,982
Central	181,580	0	0	181,580
Operation of Non-Instructional Services:				
Food Service Operations	2,273	0	1,153,228	1,155,501
Other Non-Instructional Services	0	0	2,762	2,762
Extracurricular Activities	368,726	0	196,583	565,309
Capital Outlay	597,565	0	1,050,973	1,648,538
Debt Service:				
Principal Retirement	41,497	520,000	0	561,497
Interest and Fiscal Charges	7,525	176,511	0	184,036
Issuance Costs	0	74,649	0	74,649
<i>Total Expenditures</i>	<u>20,232,450</u>	<u>786,286</u>	<u>4,741,518</u>	<u>25,760,254</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>894,746</u>	<u>(35,763)</u>	<u>(712,006)</u>	<u>146,977</u>
Other Financing Sources (Uses)				
Transfers In	0	160,000	1,415,000	1,575,000
Refunding Bonds Issued	0	2,060,000	0	2,060,000
Notes Issued	0	0	129,580	129,580
Premium on Refunding Bonds	0	304,984	0	304,984
Payment to Refunded Bond Escrow Agent	0	(2,289,117)	0	(2,289,117)
Transfers Out	(1,575,000)	0	0	(1,575,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,575,000)</u>	<u>235,867</u>	<u>1,544,580</u>	<u>205,447</u>
<i>Net Change in Fund Balance</i>	<u>(680,254)</u>	<u>200,104</u>	<u>832,574</u>	<u>352,424</u>
<i>Fund Balances Beginning of Year</i>	<u>7,559,514</u>	<u>1,033,657</u>	<u>2,736,482</u>	<u>11,329,653</u>
<i>Fund Balances End of Year</i>	<u>\$6,879,260</u>	<u>\$1,233,761</u>	<u>\$3,569,056</u>	<u>\$11,682,077</u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2013*

Net Change in Fund Balances - Total Governmental Funds		\$352,424
 <i>Amounts reported for governmental activities in the statement of activities are different because</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays:		
Capital Asset Additions	678,100	
Depreciation Expense	<u>(2,062,457)</u>	(1,384,357)
 Governmental funds report only the disposal of capital assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each disposal.		
Loss on Disposal of Capital Assets		(11,139)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Grants	(8,179)	
Student Fees	(5,503)	
Accrued Interest	(3,095)	
Delinquent Taxes	<u>228,148</u>	211,371
 Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		520,000
 Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. Premiums and discounts are reported as revenues and expenditures when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities:		
Capital Appreciation Bond Premium	17,628	
Accrued Interest Payable	(69,369)	
Amortization of Discount	(7,161)	
Amortization of Serial Premium	95,310	
Amortization of Deferred Amount on Refunding	(45,301)	
Annual Accretion	<u>(54,811)</u>	(63,704)
 Long-term debt proceeds are other financing sources in the governmental funds, but the issuance increases long-term liabilities on the statement of net position:		
Proceeds of General Obligation Notes	(129,580)	
Proceeds of General Obligation Bonds	(2,060,000)	
Bond Premium	<u>(304,984)</u>	(2,494,564)
 Payment to refunded bond escrow agent is an other financing use in the governmental funds, but the payment reduces long-term liabilities on the statement of net position.		
		2,289,117
 Repayment of capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement on net position.		
		41,497
 The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		(139,733)
 Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Vacation Benefits Payable	(6,363)	
Sick Leave Benefits Payable	<u>(6,469)</u>	<u>(12,832)</u>
 <i>Change in Net Position of Governmental Activities</i>		 <u><u>(\$691,920)</u></u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$6,066,692	\$6,066,692	\$7,002,295	\$935,603
Intergovernmental	12,585,196	12,585,196	13,040,337	455,141
Investment Earnings	3,200	3,200	194,177	190,977
Tuition and Fees	1,496,500	1,496,500	1,277,123	(219,377)
Gifts and Donations	1,200	1,200	903	(297)
Extracurricular Activities	29,000	29,000	16,553	(12,447)
Revenue in Lieu of Taxes	1,600	1,600	1,393	(207)
Miscellaneous	301	301	5,480	5,179
<i>Total Revenues</i>	<u>20,183,689</u>	<u>20,183,689</u>	<u>21,538,261</u>	<u>1,354,572</u>
Expenditures				
Current:				
Instruction:				
Regular	12,516,620	11,200,620	10,768,510	432,110
Special	1,340,774	1,340,774	1,269,484	71,290
Vocational	131,848	127,848	128,075	(227)
Intervention	182,203	182,203	199,262	(17,059)
Support Services:				
Pupils	789,183	789,183	760,257	28,926
Instructional Staff	312,799	312,799	217,827	94,972
Board of Education	112,063	112,063	109,755	2,308
Administration	1,522,046	1,522,046	1,421,386	100,660
Fiscal	518,087	518,087	427,981	90,106
Operation and Maintenance of Plant	1,824,110	1,824,110	1,875,101	(50,991)
Pupil Transportation	1,536,514	1,536,514	1,611,552	(75,038)
Central	207,203	207,203	173,316	33,887
Extracurricular Activities	373,892	373,892	371,173	2,719
Capital Outlay	0	560,000	555,005	4,995
<i>Total Expenditures</i>	<u>21,367,342</u>	<u>20,607,342</u>	<u>19,888,684</u>	<u>718,658</u>
<i>Excess of Revenues (Over) Under Expenditures</i>	<u>(1,183,653)</u>	<u>(423,653)</u>	<u>1,649,577</u>	<u>2,073,230</u>
Other Financing Source (Uses)				
Refund of Prior Year Expenditures	500	500	0	(500)
Refund of Prior Year Receipts	(2,000)	(2,000)	0	2,000
Advances Out	(100,000)	(110,000)	(107,332)	2,668
Transfers Out	(250,000)	(1,600,000)	(1,575,000)	25,000
<i>Total Other Financing Source (Uses)</i>	<u>(351,500)</u>	<u>(1,711,500)</u>	<u>(1,682,332)</u>	<u>29,168</u>
<i>Net Change in Fund Balance</i>	<u>(1,535,153)</u>	<u>(2,135,153)</u>	<u>(32,755)</u>	<u>2,102,398</u>
<i>Fund Balance Beginning of Year</i>	6,306,461	6,306,461	6,306,461	0
Prior Year Encumbrances Appropriated	39,390	39,390	39,390	0
<i>Fund Balance End of Year</i>	<u>\$4,810,698</u>	<u>\$4,210,698</u>	<u>\$6,313,096</u>	<u>\$2,102,398</u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

Statement of Fund Net Position

Internal Service Fund

June 30, 2013

	<u>Medical-Dental Insurance</u>
Current Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,885,125
Current Liabilities	
Accounts Payable	789
Claims Payable	<u>354,500</u>
<i>Total Liabilities</i>	<u>355,289</u>
Net Position	
Unrestricted	<u><u>\$1,529,836</u></u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
*Statement of Revenues,
 Expenses and Changes in Fund Net Position
 Internal Service Fund
 For the Fiscal Year Ended June 30, 2013*

	Medical-Dental Insurance
Operating Revenues	
Charges for Services	\$2,783,104
Operating Expenses	
Purchased Services	428,170
Claims	2,494,667
<i>Total Operating Expenses</i>	<i>2,922,837</i>
<i>Change in Net Position</i>	<i>(139,733)</i>
<i>Net Position Beginning of Year</i>	<i>1,669,569</i>
<i>Net Position End of Year</i>	<i>\$1,529,836</i>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

Statement of Cash Flows

Internal Service Fund

For the Fiscal Year Ended June 30, 2013

	<u>Medical-Dental Insurance</u>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$2,783,104
Cash Payments to Suppliers for Services	(427,381)
Cash Payments for Claims	<u>(2,496,834)</u>
<i>Net Decrease in Cash and Cash Equivalents</i>	(141,111)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>2,026,236</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$1,885,125</u></u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	(\$139,733)
Changes in Liabilities	
Increase in Accounts Payable	789
Decrease in Claims Payable	<u>(2,167)</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>(\$141,111)</u></u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2013

	Private Purpose Trust	
	Pletcher	Agency
	Scholarship	
Assets		
Equity in Pooled Cash and Cash Equivalents	\$16,803	\$28,791
<i>Total Assets</i>	<u>16,803</u>	<u>\$28,791</u>
Liabilities		
Due to Students	0	\$28,791
<i>Total Liabilities</i>	<u>0</u>	<u>\$28,791</u>
Net Position		
Endowments	14,000	
Held in Trust for Scholarships	<u>2,803</u>	
Total Net Position	<u>\$16,803</u>	

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2013

	Private Purpose Trust Pletcher Scholarship
Additions	
Interest	\$233
Deductions	
Scholarships	0
<i>Change in Net Position</i>	233
<i>Net Position Beginning of Year</i>	16,570
<i>Net Position End of Year</i>	\$16,803

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 1 - Description of the School District and Reporting Entity

Franklin Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District was established in 1827 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 210 square miles. It is located in Muskingum and Perry Counties, and includes the Villages of Philo and Roseville, the Townships of Salt Creek, Blue Rock, Brush Creek, Clay, Harrison, Meigs, and Wayne, and a portion of Rich Hill Township. The School District is staffed by 99 classified employees, 150 certificated full-time teaching personnel, and 13 administrative employees who provide services to 2,192 students and other community members. The School District currently operates five instructional buildings (beginning in fiscal year 2012, the Roseville instructional building only housed students of the Franklin Local Community School and preschool classes), one administrative building, and one garage.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Franklin Local School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes, and there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The School District has one component unit, the Franklin Local Community School.

The component unit column on the Statement of Net Position and the Statement of Activities identifies the financial data of the School District's Component Unit, the Franklin Local Community School (FLCS). It is reported separately to emphasize that it is legally separate from the School District.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

The FLCS is a legally separate entity created under Ohio Revised Code Chapter 3314 and incorporated under Chapter 1702. The FLCS is governed by a five member Board of Directors who are appointed from the public by the School District. These Board members are public officials, public employees, or community leaders demonstrating a professional interest in education or in other issues involving children, and desires to further the objectives of the FLCS. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of FLCS and the children it serves. The School District appoints the Board and is able to impose its will on the FLCS; therefore, due to the relationship with the School District, it would be misleading to exclude. The School District can suspend the FLCS' operations for any of the following reasons: 1) The FLCS' failure to meet student performance requirements stated in its contract with the School District, 2) The FLCS' failure to meet generally accepted standards of fiscal managements, 3) The FLCS' violation of any provisions of the contract with the School District or applicable state or federal law or 4) Other good cause. Separately issued financial statements can be obtained from the Franklin Local Community School, P.O. Box 428, Duncan Falls, Ohio 43734.

The School District participates in three jointly governed organizations and three insurance purchasing pools. These organizations are the Ohio Mid-Eastern Regional Educational Service Agency, Mid-East Career and Technology Center, Coalition of Rural and Appalachian Schools, Ohio School Boards Association Workers' Compensation Group Rating Program, Schools of Ohio Risk Sharing Authority (SORSA), and the Ohio School Boards Association Insurance Trust. These organizations are presented in Notes 17 and 18 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The School District does not have any business-type activities.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

The statement of net position presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

General Fund The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond Retirement Fund The bond retirement fund is used to account for the accumulation of resources for, and the payment of, bond principal, interest, and related costs associated with the debt issued for capital improvements.

The other governmental funds of the School District account for grants and other resources whose use is restricted, committed, or assigned to a particular purpose.

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Internal Service Fund The Internal Service Fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for the operation of the School District's self-insurance program for employee medical, surgical, prescription drug, and dental claims.

Fiduciary Fund Type Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust which accounts for a college scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student activities.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net position. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activity.

The private purpose trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, in the recording of deferred outflows/inflows of resources, and in the presentation of expenses versus expenditures.

Franklin Local School District, Ohio
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Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, interest, tuition, grants, fees, and rentals.

Unearned revenue represents amounts under the accrual and modified accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned.

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources include a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
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Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2013 amounted to \$186,111, which includes \$73,816 assigned from other School District funds.

The School District has a segregated bank account for student athletic activities. This depository account is presented as cash in segregated accounts since it is not deposited into the School District treasury.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments. As of June 30, 2013, the School District had no investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are an expenditure/expense when used. Inventory consists of materials and supplies held for consumption and donated and purchased food.

H. Capital Assets

The School District's only capital assets are general capital assets. General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

Franklin Local School District, Ohio
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All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of capital assets by backtrending (i.e., estimating the current replacement cost of the assets to be capitalized and using an appropriate price-index to deflate the costs to the acquisition year or estimated acquisition year.) Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10-40 years
Buildings and Improvements	10-40 years
Furniture and Equipment	5-20 years
Vehicles	3-10 years

I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets reported on the balance sheet represent unclaimed monies.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for classified and certified employees after ten years of current service with the School District.

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured sick leave benefits payable" in the funds from which these payments will be made.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
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K. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, long-term notes, and capital leases are recognized as a liability on the governmental fund financial statements when due.

L. Internal Activity

Transfers within governmental activities are eliminated on the government-wide statements. Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

M. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

Nonspendable: The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted: The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
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Committed: The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for the use in satisfying those contractual requirements.

Assigned: Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the School District Board of Education.

Unassigned: The unassigned fund balance is the residual classification for the General Fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which the amounts in any of the unrestricted fund balance classifications could be used.

N. Bond Premiums and Discounts and Accounting Gains

On government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond discounts and premiums are amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable. Bond premiums are presented as an addition to the face amount of the bonds. Bond discounts on the capital appreciation bonds are accreted over the term of the bonds.

On the government fund financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on the refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective interest method and is presented as deferred outflows of resources on the statement of net position.

On the government fund financial statements, bond premiums and bond discounts are recognized in the period in which bonds are issued. The face amount of the debt issue is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses.

O. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other

Franklin Local School District, Ohio
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purposes include music and athletic programs and local, federal, and state grants restricted to expenditure for specified purposes.

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. Revenues and expenses not meeting this definition are reported as non-operating.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

R. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

S. Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer maintains budgetary information at the fund, function, and object level and has the authority to allocate appropriations at the function and object level.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed.

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 3 - Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Bond Retirement	Other Governmental Funds	Total
<u>Nonspendable:</u>				
Prepays	\$86,670	\$0	\$5	\$86,675
Materials and Supplies Inventory	10,229	0	15,637	25,866
Unclaimed Monies	481	0	0	481
<i>Total Nonspendable</i>	<u>97,380</u>	<u>0</u>	<u>15,642</u>	<u>113,022</u>
<u>Restricted for:</u>				
Food Service Operations	0	0	102,438	102,438
Athletics and Music	0	0	51,185	51,185
Early Childhood Education	0	0	10,500	10,500
Special Needs Children	0	0	90,464	90,464
Community Involvement	0	0	8,802	8,802
Network Connectivity Subsidy	0	0	7,200	7,200
Miscellaneous Federal Grants	0	0	32,555	32,555
Debt Service Payments	0	1,233,761	0	1,233,761
Capital Improvements	0	0	1,261,066	1,261,066
<i>Total Restricted</i>	<u>0</u>	<u>1,233,761</u>	<u>1,564,210</u>	<u>2,797,971</u>
<u>Committed to:</u>				
Scholarships	0	0	27,045	27,045
After School Program	0	0	34,160	34,160
Textbooks	0	0	953,030	953,030
Capital Improvements	0	0	50,000	50,000
Other Purposes	1,172,953	0	0	1,172,953
<i>Total Committed</i>	<u>1,172,953</u>	<u>0</u>	<u>1,064,235</u>	<u>2,237,188</u>
<u>Assigned to:</u>				
Capital Improvements	0	0	928,261	928,261
Other Purposes	112,610	0	0	112,610
<i>Total Assigned</i>	<u>112,610</u>	<u>0</u>	<u>928,261</u>	<u>1,040,871</u>
<u>Unassigned:</u>	5,496,317	0	(3,292)	5,493,025
<i>Total Fund Balances</i>	<u><u>\$6,879,260</u></u>	<u><u>\$1,233,761</u></u>	<u><u>\$3,569,056</u></u>	<u><u>\$11,682,077</u></u>

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 4 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget) rather than restricted, committed, or assigned fund balance (GAAP).
4. Prepaid items are reported on the balance sheet (GAAP) but not on the budgetary basis.
5. Advances in and advances out are operating transactions (budget basis) as opposed to Balance Sheet transactions (GAAP basis).
6. Unreported cash and fair market value adjustments represent amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance	
GAAP Basis	(\$680,254)
Net Adjustment for Revenue Accruals	397,671
Prepaid Items:	
Beginning of Fiscal Year	77,066
End of Fiscal Year	(86,670)
Unreported Cash:	
Beginning of Fiscal Year	330,860
End of Fiscal Year	(325,532)
Fair Market Value:	
Beginning of Fiscal Year	8,066
Net Adjustment for Expenditure Accruals	571,240
Advances Out	(107,332)
Adjustment for Encumbrances	<u>(217,870)</u>
Budget Basis	<u><u>(\$32,755)</u></u>

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
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Note 5 - Deposits and Investments

Monies held by the School District are classified into three categories.

Active deposits are public deposits necessary to meet current demands upon the School District treasury. Active monies must be maintained either as cash in the School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations describe in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Cash on Hand At year end, the School District had \$328,799 in undeposited cash on hand which is included in the financial statements of the School District as part of "Cash and cash equivalents."

Franklin Local School District, Ohio
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Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$12,813,059 of the School District's bank balance of \$13,313,210 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledge to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments As of June 30, 2013, the School District had no investments. All investments were closed before year end.

Interest Rate Risk

The School District's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years. The Treasurer cannot make investments which he/she does not reasonably believe can be held until the maturity date. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk

The School District has no investment policy that addresses credit risk.

Concentration of Credit Risk

The School District places no limit on the amount it may invest in any one issuer.

Note 6 - Property Taxes

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. First half tax collections are received by the School District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar 2013 represents collections of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed value listed as of January 1, 2012, the lien date. Assessed values for real property taxes are established by State statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Franklin Local School District, Ohio
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For the Fiscal Year Ended June 30, 2013

Public utility property tax revenue received in calendar 2013 represents collections of calendar year 2012 taxes. Public utility real property taxes received in calendar year 2013 became a lien December 31, 2011, were levied after April 1, 2012, and are collected with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Muskingum and Perry Counties. The County Auditors periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2013, are available to finance fiscal year 2013 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which were measurable as of June 30, 2013, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations and is reflected as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes.

The amount available as an advance at June 30, 2013, was \$2,895,735 and is recognized as revenue: \$2,506,065 in the General Fund, \$42,171 in the Classroom Facility Maintenance Special Revenue Fund, \$215,306 in the Debt Service Fund, and \$132,193 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2012, was \$3,594,165 and is recognized as revenue: \$3,083,839 in the General Fund, \$52,375 in the Classroom Facility Maintenance Special Revenue Fund, \$296,652 in the Debt Service Fund, and \$161,299 in the Permanent Improvement Capital Projects Fund. During fiscal year 2012, Muskingum County changed their second half collection date from a historical August collection date to a June 29 collection date.

The assessed values upon which the fiscal year 2013 taxes were collected are:

	2012 Second- Half Collections		2013 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$189,004,560	65.55%	\$185,834,770	62.72%
Public Utility Personal	99,351,420	34.45%	110,474,420	37.28%
Total	\$288,355,980	100.00%	\$296,309,190	100.00%
Tax Rate per \$1,000 of assessed valuation	\$36.94		\$36.70	

During fiscal year 2013, the assessed valuations for the Public Utility Personal increased as a result of a natural gas distribution pipeline and compressor station being constructed within the School District.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 7 - Receivables

Receivables at June 30, 2013, consisted of property taxes, revenue in lieu of taxes, accounts (student fees and intergovernmental), accrued interest, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables except for property taxes are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of principal items of intergovernmental receivables follows:

Governmental Activities	<u>Amounts</u>
School Lunch Reimbursement	\$14,289
Early Childhood Education	31,500
Idea Part B	160,746
Title I	285,237
Rural and Low Income	67,088
Race to the Top Grants	144,082
Title II-A	20,458
Assessment Literacy Grant	21,664
Ohio Teacher Incentive Grant	79,307
Miscellaneous Reimbursements	<u>47,829</u>
Total	<u><u>\$872,200</u></u>

Note 8 - Interfund Transfers and Balances

Interfund balances at June 30, 2013, consist of the following individual fund receivables and payables:

	<u>Interfund Payable</u>	<u>Interfund Receivable</u>
Governmental Funds:		
General Fund	<u>\$231</u>	<u>\$109,072</u>
Other Nonmajor Governmental Funds:		
Food Service	0	231
Race to the Top	60,303	0
IDEA-B, Special Education	15,523	0
Title I	17,739	0
Title II-A	13,767	0
Miscellaneous Federal Grants	<u>1,740</u>	<u>0</u>
Total Other Nonmajor Governmental Funds	<u>109,072</u>	<u>231</u>
Total All Funds	<u><u>\$109,303</u></u>	<u><u>\$109,303</u></u>

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorization; and to segregate and to return money to the fund from which it was originally provided once a project is completed.

The School District transferred \$1,415,000 from the General Fund to the Permanent Improvement Capital Projects Fund for the purchase of computer equipment, textbooks, and various construction projects for the School District. In addition, the School District transferred \$160,000 from the General Fund to the Debt Service Fund with the intent of making additional debt payments during fiscal year 2013.

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	<u>Balance</u> <u>6/30/2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/2013</u>
Capital Assets:				
Capital Assets not being depreciated:				
Land	\$1,122,451	\$0	\$0	\$1,122,451
Construction in Progress	0	467,672	0	467,672
Total Capital Assets not being Depreciated	<u>1,122,451</u>	<u>467,672</u>	<u>0</u>	<u>1,590,123</u>
Depreciable Capital Assets:				
Land Improvements	3,103,089	32,275	(79,500)	3,055,864
Buildings and Improvements	47,205,027	57,232	(7,377)	47,254,882
Furniture and Equipment	2,493,037	120,921	0	2,613,958
Vehicles	2,078,871	0	0	2,078,871
Total Capital Assets being Depreciated	<u>54,880,024</u>	<u>210,428</u>	<u>(86,877)</u>	<u>55,003,575</u>
Less Accumulated Depreciation				
Land Improvements	(848,618)	(135,289)	71,988	(911,919)
Buildings and Improvements	(15,834,655)	(1,664,104)	3,750	(17,495,009)
Furniture and Equipment	(1,529,139)	(147,380)	0	(1,676,519)
Vehicles	(1,358,143)	(115,684)	0	(1,473,827)
Total Accumulated Depreciation	<u>(19,570,555)</u>	<u>(2,062,457) *</u>	<u>75,738</u>	<u>(21,557,274)</u>
Total Capital Assets being Depreciated, Net	<u>35,309,469</u>	<u>(1,852,029)</u>	<u>(11,139)</u>	<u>33,446,301</u>
Capital Assets, Net	<u>\$36,431,920</u>	<u>(\$1,384,357)</u>	<u>(\$11,139)</u>	<u>\$35,036,424</u>

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,004,367
Special	201,678
Vocational	7,203
Support Services:	
Pupils	50,419
Instructional Staff	237,258
Administration	56,361
Fiscal	4,652
Operation and Maintenance of Plant	140,737
Pupil Transportation	121,782
Food Service Operations	181,858
Extracurricular Activities	56,142
	<hr/>
Total Depreciation Expense	<u><u>\$2,062,457</u></u>

Note 10 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013, the School District contracted with Schools for Ohio Risk Sharing Authority for the insurance shown as follows.

Property and Inland Marine -replacement cost (\$1,000 deductible)	\$79,574,777
Automobile Liability (No deductible)	12,000,000
Uninsured Motorists (No deductible)	1,000,000
General Liability	
Per occurrence	12,000,000
Total per year	14,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from coverage in fiscal year 2012.

B. Worker's Compensation

For fiscal year 2013, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control, and actuarial services to the GRP.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

C. Employee Medical Benefits

Medical/prescription drug/surgical and dental insurance are offered to employees through a self-insurance internal service fund. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The medical coverage premiums are \$512 monthly for single and \$1,400 monthly for family. The dental coverage premiums are \$42.66 monthly for single and \$82.20 for family. The claims liability of \$354,500 reported in the internal service fund at June 30, 2013, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. The School District purchases an aggregate stop-loss coverage policy in the amount of \$3,435,192 annually. In addition, the School District has contracted for an excess stop-loss coverage with a maximum allowable covered expense per individual of \$100,000 annually.

Changes in the fund's claims liability amount in fiscal years 2012 and 2013 were:

	Beginning of Fiscal Year	Current Year Claims	Claim Payments	End of Fiscal Year
2012	\$409,000	\$2,359,243	\$2,411,576	\$356,667
2013	356,667	2,494,667	2,496,834	354,500

Note 11 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. The liability for vacation benefits is recorded as vacation benefits payable, rather than long-term liabilities, as the balances earned by employees on their anniversary hire date must be used within one year.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 225 days for all personnel. Upon retirement, certified personnel receive \$100 per day of accrued, but unused sick leave credit to a maximum of 225 days. Classified personnel receive payment for forty-two percent of accrued, but unused sick leave credit up to a maximum of 225 days.

B. Insurance

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Assurant Employee Benefits.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

C. Retirement Incentive

Upon reaching 30 years of retirement credit in the State Teachers Retirement System (STRS), teachers become eligible to receive a \$15,000 retirement bonus (incentive), providing they retire in their 30th year. The benefit will be paid in a lump sum payment in December following the effective fiscal year of retirement.

During fiscal year 2013, there were no retirement incentives paid out. As of June 30, 2013, there was no retirement incentive accrued liability.

Note 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by visiting the SERS website at www.ohsers.org under Employers / Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2013, the allocation to pension and death benefits was 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2013, 2012, and 2011, were \$370,870, \$321,134, and \$347,964, respectively. For fiscal year 2013, 65.74 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

B. State Teachers Retirement System

Plan Description – The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012, and 2011, were \$1,281,514, \$1,195,541, and \$1,175,145, respectively. For fiscal year 2013, 85.37 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2012 were \$17,576 made by the School District and \$12,554 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System / State Teachers Retirement System. As of June 30, 2013, four members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians’ fees through several types of plans including HMO’s, PPO’s and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on the SERS website at www.ohsers.org under Employers / Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2013, 0.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2013, this amount was \$35,800. During fiscal year 2013, the School District paid \$42,080 in surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District’s contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011, were \$41,944, \$41,482, and \$102,522, respectively. The full amount has been contributed for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The School District’s contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011, were \$20,565, \$17,931, and \$23,365, respectively. For fiscal year 2013, 65.10 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

B. State Teachers Retirement System

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
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Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District’s contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011, were \$98,578, \$91,965, and \$90,396, respectively. For fiscal year 2013, 85.37 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

Note 14 - Capitalized Leases

In prior fiscal years, the School District had entered into a lease agreement for copier equipment. The lease meets the criteria of a capital lease which is defined as transferring benefits and risks of ownership to the lessee.

Actual principal payments during fiscal year 2013 totaled \$41,497 in the governmental funds. There was accumulated depreciation was \$76,872 as of June 30, 2013; therefore, leaving a remaining book value of \$142,761.

The agreements provide for minimum annual rental payments as follows:

Fiscal Year	Amount
2014	\$49,022
2015	49,022
2016	49,022
2017	12,255
Total Minimum Lease Payments	159,321
Less: Amount Representing Interest	(11,132)
Present Value of Minumim Lease Payments	\$148,189

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 15 - Long-Term Obligations

The changes in the School District's long-term obligations during the fiscal year consist of the following:

	Principal Outstanding 6/30/12	Additions	Reductions	Principal Outstanding 6/30/13	Amounts Due in One Year
2000 5.0-6.0% Energy Conservation Note	\$235,000	\$0	\$75,000	\$160,000	\$80,000
2013 2.95-3.70% General Obligation Notes	0	129,580	0	129,580	32,626
Total Notes	<u>235,000</u>	<u>129,580</u>	<u>75,000</u>	<u>289,580</u>	<u>112,626</u>
1996 3.8-5.7% School Building Construction Bonds	630,000	0	295,000	335,000	335,000
2004 School Building Construction Refunding Bonds:					
Serial Bonds - 2.0%-5.0%	1,725,000	0	35,000	1,690,000	35,000
Original Issue of Capital Appreciation Bonds - 21.603%	35,000	0	0	35,000	0
Accretion on Capital Appreciation Bonds	156,717	43,654	0	200,371	0
Premium on Capital Appreciation Bonds	65,342	0	17,628	47,714	0
Premium on Serial Bonds	78,679	0	11,731	66,948	0
2004 School Building Construction Bonds:					
Serial Bonds - 2.0%-5.0%	650,000	0	305,000	345,000	85,000
Term Bonds - 4.0%-5.0%	1,840,000	0	1,840,000	0	0
Premium on Serial Bonds	81,041	0	69,118	11,923	0
Discount on Term Bonds	(9,838)	0	(7,161)	(2,677)	0
2012 School Building Construction Refunding Bonds:					
Serial Bonds - 1.0%-2.0%	0	475,000	30,000	445,000	40,000
Term Bonds - 2.35%-3.0%	0	1,545,000	0	1,545,000	0
Premium on Bonds	0	304,984	14,461	290,523	0
Original Issue of Capital Appreciation Bonds - 28.74-32.98%	0	40,000	0	40,000	0
Accretion on Capital Appreciation Bonds	0	11,157	0	11,157	0
Total Bonds	<u>5,251,941</u>	<u>2,419,795</u>	<u>2,610,777</u>	<u>5,060,959</u>	<u>495,000</u>
Capital Leases Payable	189,686	0	41,497	148,189	43,362
Sick Leave Benefits Payable	<u>1,759,351</u>	<u>280,109</u>	<u>273,640</u>	<u>1,765,820</u>	<u>38,386</u>
Total Governmental Activities Long-Term Liabilities	<u>\$7,435,978</u>	<u>\$2,829,484</u>	<u>\$3,000,914</u>	<u>\$7,264,548</u>	<u>\$689,374</u>

Capital leases are paid from the General Fund. Sick leave benefits are paid from the fund from which the employees' salaries are paid, which includes the General Fund and Lunchroom Special Revenue Funds.

On August 1, 2000, the School District issued an unvoted general obligation energy conservation note for \$866,000 for installing energy conservation improvements for the School District under the authority of Ohio Revised Code sections 133.06(G) and 3313.372. The note was issued for a fifteen year period with final maturity during fiscal year 2015. The debt will be retired through reductions in energy consumption and cost savings attributed to the installation of the energy conservation improvements. The General Fund allocated tax revenues to the Bond Retirement Debt Service Fund to meet current fiscal year obligations.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
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Principal and interest requirements to retire the energy conservation note outstanding at June 30, 2013, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2014	\$80,000	\$9,600	\$89,600
2015	80,000	4,800	84,800
Total	<u>\$160,000</u>	<u>\$14,400</u>	<u>\$174,400</u>

On May 1, 2013, the School District was approved for general obligation notes for \$290,000 for installing a synthetic turf playing surface for athletic purposes for the School District under the authority of Ohio Revised Code section 133. The note was issued for an eight year period with final maturity during fiscal year 2021. The debt will be retired through five year pledge donations to be collected from residents of the School District. Through an agreement with the local bank where the proceeds are drawn, the School District made draws on the note as progress on the project was made. At fiscal year end, \$129,580 has been drawn. Prior to the issuance of these financial statements, the School District had fully drawn the entire amount of \$290,000. The following schedule shows the principal and interest requirements to retire the full amount of the debt:

Fiscal Year Ending June 30	Principal	Interest	Total
2014	\$32,626	\$8,674	\$41,300
2015	33,602	7,698	41,300
2016	34,588	6,711	41,299
2017	35,641	5,659	41,300
2018	36,707	4,593	41,300
2019-2021	<u>116,836</u>	<u>8,881</u>	<u>125,717</u>
Total	<u>\$290,000</u>	<u>\$42,216</u>	<u>\$332,216</u>

On October 1, 1996, the School District issued school building construction general obligation bonds for \$5,300,000 as a result of the School District being approved for a \$7,978,096 school facilities grant through the Ohio School Facilities Commission for the construction of building additions to the following buildings: Roseville Middle School, Roseville Primary School, Duncan Falls Primary, and Philo Intermediate. The School District issued the bonds to provide the required local match for the school facilities loans. As a requirement of the loans, the School District was required to pass a 4.5 mill levy. 4.0 mills will be used to repay the debt issue which provides the matching funds required of the School District. The remaining .5 mill is used for facilities maintenance.

On March 15, 2004, the School District issued \$5,837,000 in general obligation refunding bonds. The proceeds were used to advance refund \$2,740,000 of outstanding 1996 school building construction bonds and to retire the \$3,097,000 bond anticipation notes for the local share of the school facilities approved in fiscal year 2004. The refunded bond escrow agent paid bond holders during fiscal year 2012.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

The refunding bond issue included serial and capital appreciation bonds in the amount of \$2,705,000 and \$35,000, respectively. The bonds are being retired from the Bond Retirement Debt Service Fund. The serial general obligation bonds were sold at a premium of \$175,967 and will be amortized over the term of the bonds.

The capital appreciation bonds were sold at a premium of \$211,530. The capital appreciation bonds will mature in fiscal year 2016. The maturity amount of the bonds is \$385,000. For the fiscal year 2013, \$43,654 was accreted for a total bond value of \$248,085.

The \$3,097,000 general obligation bonds that were issued on March 15, 2004, for school building construction include serial and term bonds in the amount of \$1,257,000 and \$1,840,000, respectively. The bonds are being retired from the Bond Retirement Debt Service Fund. The serial and term general obligation bonds were sold at a premium of \$115,145 and discount of \$11,500 and are amortized over the term of the bonds. The term bonds were advance refunded during fiscal year 2013.

On March 24, 2009, Financial Guaranty Insurance Company (FGIC), the bond insurer for several current debt issues, was downgraded by Moody's Investor Services from Caa1 to Caa3 and Moody's will withdraw ratings. This downgrade came after Moody's had previously downgraded FGIC from B1 to Caa1 on December 19, 2008; from Baa3 to B1 on June 20, 2008; from A3 to Baa3 on March 31, 2008; and from Aaa to A3 on February 14, 2008.

The downgrade of a bond insurer may not, in and by itself, create an immediate default under the bond indentures or other bond documents or cause any reallocation of rights or responsibilities among parties; however, it will likely have an adverse effect on the value of the bonds as they are traded in the secondary market.

The School District was notified of four of these downgrades by their bond counsel and on March 10, 2009, filed a Material Event Notice with Disclosure USA referencing to the relevant transactions and rating downgrades which had occurred by that date. The School District's bond rating by Moody's on July 24, 2012, was Aa2.

On July 24, 2012, the School District issued refunding bonds of \$2,060,000 consisting of \$475,000 in serial bonds, \$40,000 in capital appreciation bonds, and \$1,545,000 in term bonds. The refunding bonds will mature on December 1, 2031. These bonds were issued to advance refund the 2004 School Building Construction Term Bonds. The advance refunded portion of the bonds, as well as the unamortized premium and discount of these advance refunded bonds, were removed from the financial statements of the School District. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$216,787. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being amortized to interest expense over the life of the refunded bonds using the straight-line method. The amortization of this difference for 2013 was \$10,279. The issuance resulted in a difference (savings) between the cash flows required to service the old debt and the cash flows required to service the new debt of \$247,710. The issuance resulted in an economic gain of \$193,271. At the date of the refunding, \$2,289,117 (including underwriter fees and other issuance costs) was deposited in an irrevocable trust to provide for all future debt service payments on the refunded 2004 bonds.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

The current interest term bonds due December 1, 2023, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount To Be Redeemed</u>
2022	\$135,000

The remaining principal amount of such current interest term bonds (\$140,000) will be paid at stated maturity on December 1, 2023.

The current interest term bonds due December 1, 2025, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount To Be Redeemed</u>
2024	\$145,000

The remaining principal amount of such current interest term bonds (\$150,000) will be paid at stated maturity on December 1, 2025.

The current interest term bonds due December 1, 2027, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount To Be Redeemed</u>
2026	\$155,000

The remaining principal amount of such current interest term bonds (\$155,000) will be paid at stated maturity on December 1, 2027.

The current interest term bonds due December 1, 2029, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount To Be Redeemed</u>
2028	\$160,000

The remaining principal amount of such current interest term bonds (\$160,000) will be paid at stated maturity on December 1, 2029.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

The current interest term bonds due December 1, 2031, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount To Be Redeemed</u>
2030	\$170,000

The remaining principal amount of such current interest term bonds (\$175,000) will be paid at stated maturity on December 1, 2031.

The current interest term bonds maturing after December 1, 2021, are subject to redemption at the option of the School District, either in whole or in part, in such order of maturity as the School District shall determine, on any date on or after June 1 2022, at a redemption price equal to 100% of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

The capital appreciation bonds will mature in fiscal year 2022. The maturity amount of the bonds is \$460,000. For the fiscal year 2013, \$11,157 was accreted for a total bond value of \$51,157.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2013, were as follows:

Fiscal Year Ending June 30	Serial		Capital Appreciation		Term	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$495,000	\$146,978	\$0	\$0	\$0	\$0
2015	500,000	126,566	0	0	0	0
2016	130,000	117,262	35,000	350,000	0	0
2017	535,000	103,917	0	0	0	0
2018	560,000	80,218	0	0	0	0
2019-2023	595,000	54,905	40,000	420,000	135,000	124,995
2024-2028	0	0	0	0	745,000	141,291
2029-2032	0	0	0	0	665,000	39,407
	<u>\$2,815,000</u>	<u>\$629,846</u>	<u>\$75,000</u>	<u>\$770,000</u>	<u>\$1,545,000</u>	<u>\$305,693</u>

The interest on the capital appreciation bonds represents the accretion of the deep-discounted bonds from the initial value at the time of issuance to their value at final maturity.

The overall debt margin of the School District as of June 30, 2013, was \$22,259,869 with an unvoted debt margin of \$284,341.

Note 16 - Contractual Commitments

As of June 30, 2013, the School District had a contractual purchase commitment as follows:

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Contractor	Contract Amount	Amount Expended	Amount Remaining
Advanced Heating and Cooling	\$181,000	\$0	\$181,000
Cardinal Bus Sales and Service	161,142	0	161,142
Heiberger Paving Inc	300,811	0	300,811
Covenant Sports Group LLC	287,000	259,080	27,920
	<u>\$929,953</u>	<u>\$259,080</u>	<u>\$670,873</u>

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

General Fund	\$217,870
Nonmajor Governmental Funds	794,807
Internal Service Funds	<u>769</u>
Total	<u>\$1,013,446</u>

Note 17 - Jointly Governed Organizations

A. Ohio Mid-Eastern Regional Educational Service Agency

The School District is a participant in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) which was created as a regional council of governments pursuant to State statutes. OME-RESA was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. OME-RESA has 12 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Monroe, Muskingum, Noble, and Tuscarawas Counties. OME-RESA is governed by a board which is selected by the member districts. OME-RESA possesses its own budgeting and financing authority. The continued existence of OME-RESA is not dependent on the District's continued participation and the School District has no equity interest in the Agency. The School District's payments for computer services to OME-RESA in fiscal year 2013 were \$55,165. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

B. Mid-East Career and Technology Center

The Mid-East Career and Technology Center is a jointly governed organization providing vocational services to its thirteen member school districts. The Career and Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one member from each of the participating school district's boards. The board possesses its own budgeting and taxing authority. The continued existence of the Career and Technology Center is not dependent on the School District's continued participation. To obtain financial information write to the Mid-East Career and Technology Center, Rick White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 43701.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

C. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of 136 school districts and other educational institutions in the 35-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 35 Appalachian counties are divided; and three from Ohio University College of Education. The Coalition provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Coalition. The School District's membership fee was \$325 for fiscal year 2013. The financial information for the Coalition can be obtained from the Executive Director, at McCracken Hall, Ohio University, Athens, Ohio 45701.

Note 18 - Insurance Purchasing Pools

A. Ohio School Boards Association Workers' Compensation Group Rating Program

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Schools of Ohio Risk Sharing Authority

The School District participates in the Schools of Ohio Risk Sharing Authority (SORSA), a protected self-insurance purchasing pool under the authority of the Ohio Revised Code 2744. Ninety-six school districts, educational service centers, and joint vocational school districts participate in the SORSA. SORSA is governed by a body elected by members. Members agree to jointly participate in coverages of losses and pay all contributions necessary for the specified insurance coverage's provided by SORSA. These coverage's include comprehensive general liability, automobile liability, certain property insurance, and public officials errors and omissions liability insurance.

C. Ohio School Boards Association Insurance Trust

The School District participates in the Ohio School Boards Association (OSBA) Insurance Trust, an insurance purchasing pool. The OSBA Insurance Trust helps its members purchase life insurance at a discounted rate. The organization is composed of 11 members, which includes school districts and educational service centers. The governing board of the OSBA Insurance Trust is composed of a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 19 - Related Party Transactions

During fiscal year 2013, the School District provided educational management information systems coordinating services and other administrative services to the FLCS in the amount of \$664,916. These services were not totally paid to the School District by June 30, 2013; therefore, the statement of net position shows a receivable to the School District from the FLCS for \$83,164.

Note 20 - Set-asides

The School District is required by State statute to annually set-aside in the General Fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future years. In prior fiscal years, the School District was also required to set-aside money for budget stabilization and textbooks.

The following cash basis information describes the change in the fiscal year end set-aside amounts for capital improvements. Disclosure of this information is required by State statute.

	Capital Improvements Reserve
Set-aside Reserve Balance as of June 30, 2012	\$0
Current Year Set-aside Requirement	367,512
Current Year Offsets	(2,232,629)
Qualifying Disbursements	(421,139)
Total	(\$2,286,256)
 Set-aside Balance Carried Forward to Future Fiscal Years	 \$0

The School District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount below zero. The excess in the capital maintenance set-aside may not be carried forward to reduce the set-aside requirement in future years.

Note 21 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2013.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

B. Litigation

As of June 30, 2013, the School District is not a party to any lawsuits.

Note 22 - Franklin Local Community School Component Unit

A. Basis of Presentation

The FLCS' basic financial statements consist of a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows.

FLCS uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

B. Capital Assets

FLCS' capital assets during fiscal year 2013 consisted of computers, computer equipment, a phone system, a refrigerator, a copier, and desks and cabinets. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. FLCS maintains a capitalization threshold of five hundred dollars. All of FLCS' reported capital assets are depreciated using the straight-line method. Equipment is depreciated over six to ten years and furniture is depreciated over twenty years of useful life.

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013
Computer Equipment	\$192,632	\$0	\$0	\$192,632
Furniture and Fixtures	13,885	0	0	13,885
Less Accumulated Depreciation	(93,461)	(23,816)	0	(117,277)
Capital Assets, Net	<u>\$113,056</u>	<u>(\$23,816)</u>	<u>\$0</u>	<u>\$89,240</u>

FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
School Breakfast Program	2012/2013	10.553	\$ 6,563	\$ 6,563
National School Lunch Program	2012/2013	10.555	59,063	59,063
Non-Cash Assistance Subtotal			<u>65,626</u>	<u>65,626</u>
Cash Assistance:				
School Breakfast Program	2012/2013	10.553	125,515	125,515
National School Lunch Program	2012/2013	10.555	512,805	512,805
Summer Food Service Program for Children	2012/2013	10.559	36,115	36,115
Cash Assistance Subtotal			<u>674,435</u>	<u>674,435</u>
Total Child Nutrition Cluster			<u>740,061</u>	<u>740,061</u>
Total U.S. Department of Agriculture			740,061	740,061
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	2012	84.010	187,576	171,212
	2013		416,942	434,681
Title I Grants to Local Educational Agencies			<u>604,518</u>	<u>605,893</u>
Special Education, Grants to States	2012	84.027	74,905	80,059
	2013		350,330	365,852
Special Education, Grants to States			<u>425,235</u>	<u>445,911</u>
Educational Technology State Grants	2012	84.318	4,634	4,634
Rural Education	2012	84.358	54,740	54,956
Improving Teacher Quality State Grants	2012	84.367	20,505	20,647
	2013		90,250	90,807
Total Improving Teacher Quality State Grants			<u>110,755</u>	<u>111,454</u>
Teacher Incentive Fund Cluster				
Teacher Incentive Fund	2013	84.374	0	1,776
ARRA - Teacher Incentive Fund, Recovery Act				
Teacher Incentive Fund	2012	84.385	79,347	39,526
TIF Supplemental - Batelle	2013		5,676	5,676
Teacher Incentive Fund	2013		420,462	420,462
Assessment Literacy PD	2013		0	3,767
Teacher Incentive Fund - OTES Supplemental	2013		2,996	2,996
Total ARRA - Teacher Incentive Fund, Recovery Act			<u>508,481</u>	<u>472,427</u>
Total Teacher Incentive Fund Cluster			508,481	474,203
ARRA - Race-to-the-Top Incentive Grants, Recovery Act:				
Race to the Top	2012	84.395	27,017	25,936
Ohio Appalachian Collaborative (OAC)	2012		23,675	5,052
Resident Educator	2013		1,750	1,750
Advanced Placement	2013		5,950	5,950
Race to the Top	2013		113,912	164,215
Ohio Appalachian Collaborative	2013		52,557	56,476
Total ARRA - Race-to-the-Top Incentive Grants, Recovery Act			<u>224,861</u>	<u>259,379</u>
Education Jobs Grant	2012	84.410	170,230	170,319
Total U.S. Department of Education			<u>2,103,454</u>	<u>2,126,749</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 2,843,515</u>	<u>\$ 2,866,810</u>

The accompanying Notes to the Federal Awards Receipts and Expenditures Schedule are an integral part of this Schedule.

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the School District's federal award programs receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B – CHILD NUTRITION CLUSTER

The School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The School District reports commodities consumed on the Schedule at the fair value. The School District allocated donated food commodities to the respective programs that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Franklin Local School District
Muskingum County
360 Cedar Street
P.O. Box 428
Duncan Falls, Ohio 43734

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Franklin Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated August 21, 2013, wherein we noted the School District adopted Governmental Accounting Standards Board Statements No. 63.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the School District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

August 21, 2013



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Franklin Local School District
Muskingum County
360 Cedar Street
P.O. Box 428
Duncan Falls, Ohio 43734

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the Franklin Local School District, Muskingum County, Ohio (the School District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the School District's major federal programs for the year ended June 30, 2013. The *Summary of Auditor's Results* in the accompanying Schedule of Findings identifies the School District's major federal programs.

Management's Responsibility

The School District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the School District's compliance for each of the School District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the School District's major programs. However, our audit does not provide a legal determination of the School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only described the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

August 21, 2013

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I, Part A – CFDA 84.010; Teacher Incentive Fund Cluster – CFDA 84.374 and 84.385; ARRA Race-to-the-Top Incentive Grants, Recovery Act – CFDA 84.395
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

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INDEPENDENT AUDITOR'S REPORT ON APPLYING AGREED-UPON PROCEDURE

Franklin Local School District
Muskingum County
360 Cedar Street
P.O. Box 428
Duncan Falls, Ohio 43734

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Franklin Local School District (the School District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on September 20, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 21, 2013

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Dave Yost • Auditor of State

FRANKLIN LOCAL SCHOOL DISTRICT

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 5, 2013**